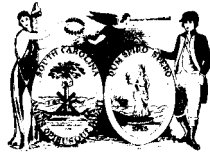


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

July 24, 2002

Ms. Linda A. Holtzscheiter, Reimbursement Manager  
Mariner Post-Acute Network  
15415 Katy Freeway, Suite 800  
Houston, Texas 77094

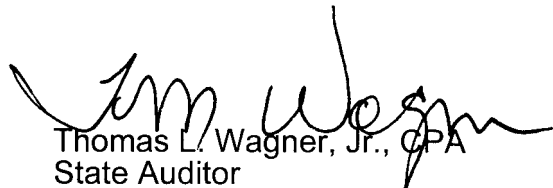
Re: AC# 3-OKB-J9 – GranCare South Carolina d/b/a Oakbrook Healthcare Center

Dear Ms. Holtzscheiter:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Joseph P. Hayes

**GRANCARE SOUTH CAROLINA  
D/B/A OAKBROOK HEALTHCARE CENTER**

**SUMMERVILLE, SOUTH CAROLINA**

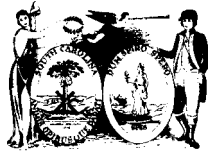
**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2000  
AC# 3-OKB-J9**

**AGREED-UPON PROCEDURES REPORT  
ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

## **CONTENTS**

	<b><u>EXHIBIT OR SCHEDULE</u></b>	<b><u>PAGE</u></b>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2000	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2000 THROUGH SEPTEMBER 30, 2001	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1999	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	10

# State of South Carolina



## Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 31, 2002

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GranCare South Carolina d/b/a Oakbrook Healthcare Center, for the contract period beginning October 1, 2000 and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of GranCare South Carolina d/b/a Oakbrook Healthcare Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

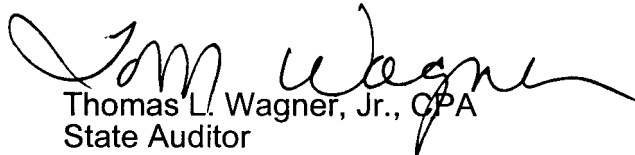
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GranCare South Carolina d/b/a Oakbrook Healthcare Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and GranCare South Carolina d/b/a Oakbrook Healthcare Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
May 31, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

**OAKBROOK HEALTHCARE CENTER**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2000  
AC# 3-OKB-J9

	10/01/00- <u>09/30/01</u>
Interim Reimbursement Rate (1)	\$100.65
Adjusted Reimbursement Rate	<u>96.19</u>
Decrease in Reimbursement Rate	\$ <u><u>4.46</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

### OAKBROOK HEALTHCARE CENTER

Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 2000 Through September 30, 2001  
AC# 3-OKB-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$43.28	\$50.22	
Dietary		9.89	10.56	
Laundry/Housekeeping/Maintenance		<u>7.14</u>	<u>9.12</u>	
Subtotal	\$ <u>4.89</u>	60.31	69.90	\$60.31
Administration & Medical Records	\$ <u>-</u>	<u>14.22</u>	<u>11.20</u>	<u>11.20</u>
Subtotal		74.53	<u>\$81.10</u>	71.51
<u>Costs Not Subject to Standards:</u>				
Utilities		2.26		2.26
Special Services		1.35		1.35
Medical Supplies & Oxygen		3.28		3.28
Taxes and Insurance		2.78		2.78
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$84.20</u>		81.18
Inflation Factor (3.20%)				2.60
Cost of Capital				7.81
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				4.89
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.14)
Nurse Aide Staffing Add-On 10/01/99				1.49
Nurse Aide Staffing Add-On 10/01/00				<u>1.36</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$96.19</u>

**OAKBROOK HEALTHCARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1999  
AC# 3-OKB-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,342,300	\$ -	\$ 7,162 (5) 461 (5)	\$1,334,677
Dietary	314,127	-	902 (5) 8,273 (7)	304,952
Laundry	31,704	-	-	31,704
Housekeeping	111,469	823 (10)	406 (5) 819 (11)	111,067
Maintenance	77,367	140 (6) 557 (10)	226 (5) 557 (11)	77,281
Administration & Medical Records	475,643	821 (10)	963 (5) 83 (5) 28,654 (6) 7,693 (7) 695 (11)	438,376
Utilities	70,317	126 (6) 506 (10)	622 (9) 502 (11)	69,825
Special Services	45,177	233 (7)	241 (5) 3,665 (8)	41,504
Medical Supplies & Oxygen	120,115	-	18,173 (4) 128 (7) 777 (8)	101,037

**OAKBROOK HEALTHCARE CENTER**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 1999  
 AC# 3-OKB-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Taxes and Insurance	113,942	6,606 (6) 803 (10)	34,979 (3) 604 (11)	85,768
Legal Fees	3,855	7 (10)	3,862 (6)	-
Cost of Capital	302,963	1,423 (10) 1,111 (12)	9,984 (1) 28,629 (2) 25,064 (6) 890 (11)	240,930
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Subtotal	3,008,979	13,156	185,014	2,837,121
Ancillary	56,759	18,173 (4)	-	74,932
Non-Allowable	665,654	9,984 (1) 28,629 (2) 34,979 (3) 10,444 (5) 50,708 (6) 15,861 (7) 4,442 (8) 622 (9) 4,067 (11)	4,940 (10) 1,111 (12)	819,339
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Operating Expenses	<u>\$3,731,392</u>	<u>\$191,065</u>	<u>\$191,065</u>	<u>\$3,731,392</u>
Total Patient Days	<u>30,835</u>	<u>-</u>	<u>-</u>	<u>30,835</u>
TOTAL BEDS	<u>88</u>			

**OAKBROOK HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1999  
AC# 3-OKB-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 91,781	
	Other Equity	40,183	
	Nonallowable	9,984	
	Fixed Assets		\$131,964
	Cost of Capital		9,984
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	28,629	
	Cost of Capital		28,629
	To remove amortization expense related to organization and loan cost State Plan, Attachment 4.19D		
3	Nonallowable	34,979	
	Taxes and Insurance		34,979
	To adjust liability insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Ancillary	18,173	
	Medical Supplies		18,173
	To reclassify prescription drug expense to the proper cost center DH&HS Expense Crosswalk		
5	Nonallowable	10,444	
	Nursing		7,162
	Restorative		461
	Dietary		902
	Housekeeping		406
	Maintenance		226
	Administration		963
	Medical Records		83
	Special Services		241
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

**OAKBROOK HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1999  
AC# 3-OKB-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Maintenance	140	
	Utilities	126	
	Taxes and Insurance	6,606	
	Nonallowable	50,708	
	Administration		28,654
	Legal		3,862
	Cost of Capital		25,064
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
7	Special Services	233	
	Nonallowable	15,861	
	Dietary		8,273
	Administration		7,693
	Medical Supplies		128
	To remove special (ancillary) services		
	reimbursed by Medicare		
	State Plan, Attachment 4.19D		
8	Nonallowable	4,442	
	Medical Supplies		777
	Special Services		3,665
	To adjust co-insurance for Medicare		
	Part B services		
	State Plan, Attachment 4.19D		
9	Nonallowable	622	
	Utilities		622
	To properly offset income against		
	related expense		
	HIM-15-1, Section 2102.3		
	State Plan, Attachment 4.19D		

**OAKBROOK HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1999  
AC# 3-OKB-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Housekeeping	823	
	Maintenance	557	
	Administration	821	
	Legal	7	
	Utilities	506	
	Taxes and Insurance	803	
	Cost of Capital	1,423	
	Nonallowable		4,940
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
11	Nonallowable	4,067	
	Housekeeping		819
	Maintenance		557
	Administration		695
	Utilities		502
	Taxes and Insurance		604
	Cost of Capital		890
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
12	Cost of Capital	1,111	
	Nonallowable		1,111
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$323,029</u>	<u>\$323,029</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**OAKBROOK HEALTHCARE CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1999  
AC# 3-OKB-J9

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.3156</u>
Deemed Asset Value (Per Bed)	36,165
Number of Beds	<u>88</u>
Deemed Asset Value	3,182,520
Improvements Since 1981	399,194
Accumulated Depreciation at 9/30/99	<u>(1,049,032)</u>
Deemed Depreciated Value	2,532,682
Market Rate of Return	<u>.060</u>
Total Annual Return	151,961
Return Applicable to Non-Reimbursable Cost Centers	(1,064)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>255</u>
Allowable Annual Return	151,152
Depreciation Expense	94,758
Amortization Expense	661
Capital Related Income Offsets	(4,751)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(890)</u>
Allowable Cost of Capital Expense	240,930
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>
Cost of Capital Per Diem	\$ <u><u>7.81</u></u>

**OAKBROOK HEALTHCARE CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1999  
AC# 3-OKB-J9

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 7.79
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$11.78</u>
Reimbursable Cost of Capital Per Diem	\$ 7.81
Cost of Capital Per Diem	<u>7.81</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

2 copies of this document were published at an estimated printing cost of \$1.41 each, and a total printing cost of \$2.82. The FY 2002-03 Appropriation Act requires that this information on printing costs be added to the document.